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CHANGE IN INDIA'S FOREIGN TRADE COMPOSITION SINCE - 1991

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Abstract

India's trade composition has changed significantly in last 32 years, as per the HS6[2] digit level, 3,837 commodities were exported to 173 countries, and 3,391 products were imported from 123 countries around the globe. The top 5 commodities in India's export basket in 1991 were gems and jewellery, non-agglomerated iron ores, petroleum products and, textiles, while the import basket contained crude oil, raw diamonds, and fertilisers. During 1991, the export of petroleum and crude products increased by 562 percent, while the export of agricultural and allied products, ores, and minerals declined by 39 percent and 96 percent, respectively. India's import basket has experienced very few variations since 1991. The main factors behind this transformation are the integration of the Indian economy with the rest of the world, EXIM and foreign trade policies, free trade agreements, and the SEZ Act of 2006. PLI schemes and make-in-India incentives. The average value of the concentration ratio is 0.073 between 1990–91 and 2021–22. after 2006-07 the value of concentration ratio has been continuously increased. Due to economic integration and openness the HII of India's import continuously increased the increasing trends of concentration ratio of export and import shows the increasing trend of competition.

Keywords: Trade, Composition, Export, Import, Economic Integration, EXIM Policy, Concentration

Introduction

In the 1990s, India's MPC[2] was very low, and due to a closed economy and lack of competition, the price of goods in India was much higher than that of other countries, but the new policy of liberalisation, privatisation, and globalisation of 1991 opened the door of possibilities and opportunities. In 1991–1992, the government of India introduced a series of reforms (structural reforms and stabilisation reforms) like deregulation of industrial sectors, financial sector reforms, tax and tariff reforms, foreign exchange and foreign investment reforms, and trade and investment reforms. The economic reforms of 1991 (openness of the economy, transparency, and ease of doing business) have prompted the integration of the Indian economy with the globe, and due to economic integration and globalisation, the importance of foreign trade in India has increased very rapidly. Due to having the second-highest population (Census 2011) in the world, it has emerged as a very attractive, new, and one of the biggest markets in the world. In 1991, the total value of India's exports was just 17.9 million USD, and the value of imports was 19.5 million USD. As per the HS6[2] digit level, 3,837 commodities were exported to 173 countries, and 3,391 products were imported from 123 countries around the globe. The top 5 commodities in India's export

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[2] Marginal Propensity to Consume.

basket in 1991 were gems and jewellery, non-agglomerated iron ores, petroleum products, frozen shrimps and prawns, and textiles, while the import basket contained crude oil, raw diamonds, and fertilisers. But in 2023, the total value of exports as of November 2023 was estimated to be 62.5 billion USD, and the value of imports was 67.88 billion USD during the same period. With 95 billion USD USA is India's largest trading partner in 2023-24. India's trade composition has changed significantly in last 32 years, in 2023 India's top 5 exported commodities were petroleum product, Gems and Jewelleries, automobiles, Engineering goods, and bio- chemicals while top 5 imported commodities were crude oil, Gold, Coal, Coke and Briquettes, petroleum product and electronics items. In last 32 years India's foreign trade has grown by more than 3000% and reached 759.93 billion USD in 2023 from 22.94 billion USD in 1991.

Objective

To study the changes in India's foreign trade composition since 1991.

Hypothesis

H_0: There is no change in India's foreign trade composition since 1991.

EXIM Act– 1991-92

In order to liberalize imports and boost exports, the Government of India for the first time introduced the Indian EXIM Policy on April I, 1992 under Section 5 of Foreign Trade Development and Regulation Act, 1992. In India order to bring stability and continuity, the foreign trade policy (ETP) was made for the duration of 5 years. Section-5 of the EXMI Act. Grant power to the Government of India to make any kind change and amendments in public interest. Under the EXIM policy Licensing Raj was completely dissolved and other trade restrictions, regulatory and discretionary controls have been completely eliminated. Under the FTDR act 1992 Ministry of commerce and trade announces Foreign Trade Policy (FTP) in every five years. EXIM policy provides policy and strategy of the government to be followed for promoting exports and regulating imports for attaining a share of at least 2 % of global merchandise trade. In 2004 EXIM policy was replaced by Foreign Trade Policy. FTP provides more comprehensive and flexible approach to foreign trade.

Literature Review

According to **Nielsens Utoft Andersen et al. (2017)**, the shifting global climate will open up new demand and opportunity channels for India. Recently, national and international organisations, federal and state governments, and export promotion organisations should concentrate on national priorities for export sectors, which are the most significant and call for increased participation in the structure and administration of export policy **(Prasad H.A.C. 2012).**

As per **Ajay Sood's (2022)** study, economic reforms 1991 had a significant change in composition of India's foreign trade. India's exports increased due to rise in competition among the rest of the world, improved quality of commodities and one of the biggest market on the globe.

According to **T.P. Bhat (2011)** after economic reform India has witnessed significant changes in the trend, and structure of foreign trade. The contribution of secondary sector in the GDP as well as export has marginally decreased, while the contribution of service sector in the GDP and foreign trade had Continuously increased. And India's export and import basket had witnessed significant changed since 1991.

Anju Kohli (2012), expose the significance of growing foreign trade in services in India. In his study he found that service sector in India grew more rapidly than merchandise trade since 1991 but still dominated by developed and advance countries, the share of developing countries is just 1/3 in the world trade. According to his study the main factors behind its growth is liberalisation, WTO's conditions and access to the growing overseas market.

According to **Pillania (2008)**, both the Indian economy and India's foreign trade are expanding. Since 1947, India's exports have significantly increased in value as well as in volume. India's merchandise exports increased in value from US $1.3 billion in 1950–1951 to US $63.8% in 2003–2004, Today's trade is primarily composed of manufactured commodities and services. USA, UAE, EU, China and other East Asian nations have grown to be important trading partners. In the upcoming years, India's foreign trade has enormous unrealized potential.
Jadhav, 2014

According to **Mathor and Sagar (2015)**, India's imports are growing faster than exports, but exports are growing slower. Between 2004–05 and 2009–10, the trade deficit grew dramatically. Particularly since globalization and liberalization, India's foreign trade composition has experienced significant changes. Nowadays, manufacturing commodities such petroleum products, engineering goods, chemicals, gems and jewellery, textiles, electronics, etc.

DATA SOURCE AND METHODLOGOLY

The study is based on secondary data. The data has bene processed with the help of descriptive statistical techniques such as tables, charts, means, standard deviations, and averages. It also examines with help inferential statistical techniques applied, such as correlation, regression, and t - tests, which has been used hypotheses testing. Apart from statistical tools, macroeconomic tools such as, the index of rank dominance (IRD), and the Herfindahl-Hirschman Index (HHI) has been used.

Dominance Patterns

Dynamic changes in the pattern of export of commodities would result in changing ranks of different commodities exported from India. This represents a state of competition amongst exported commodities.

Index of Rank Dominance

The index of rank dominance (IRD) is an innovative measure which tells us a coefficient that expresses the degree of dominance of an ordinal measure such as rank.

$$\boldsymbol{I_{RD}} = \frac{\sum_{1990}^{2022}(\boldsymbol{Rank\ Score})_i}{\boldsymbol{Maximum\ Rank\ of\ Score\ X}}$$ (Used by Bhanu Murthy, 2011)

The value of $\boldsymbol{IRD}$ lies between 0 and 1, that is:

$$0 < \boldsymbol{IRD} \leq \mathbf{1}$$

I_{RD} measures in relative terms the position of the most dominant commodity over period from 2015 to 2023 for exporting commodity. The value of I_{RD} lies between zero and one but never become zero because in this index, commodities included must be at least one time be placed in the top ten positions over the period 2015 to 2023. The maximum value of I_{RD} shall be one provided a commodity has been at top position in all years from 2015 to 2023 for exporting commodity from India.

I_{RD} is a measure that applies to panel data. That is, it measures the dominance and amongst 'N' countries over a time periods of 'T' years.

Herfindahl-Hirschman Index of Concentration

Herfindahl-Hirschman Index (HHI) is a commonly accepted measure of market concentration. The **HHIC** is expressed as:

$$HHIC = \sum_{i=1}^{N} S_i^2$$ (Used by Bhanu Murthy and Deb, 2008).

(This index is range from 1/N to one where below 0.1 HHIC value indicate not concentration and above 0.30 indicates high concentration.) **'S_i'** is the market share of exported commodity 'i' in the market and 'N' is the number of commodities.

RESULTS AND ANALYSIS

Composition of India's Foreign Trade

During colonial period Britishers strongly consider that India was a one of the best supplier of raw materials and other intermediate goods and a good market place for British final goods because of huge population. at the time of independence our exports were predominantly of primary goods and imports were of manufacturers and finished goods. At the time of independence agricultural commodities are dominated India's export basket. But after independence India's export basket completely changed.

Table: 1 Composition of India's Export (1990-91 to 2021-22)

Export Basket	Percentage Share to Total Export			Growth Rate (1990-91to 2021-22)
	1990-91	2005-06	2021-22	
Agricultural and Allied Products	19.5	10.2	11.9	-39%
Ores and Minerals	4.4	5.2	0.16	-96%
Manufactured Goods	73	72	68	-7%
Crude & Petroleum Product	2.9	11.5	19.2	562%
Other Unclassified Items	0.2	1.1	0.99	395%
	100	100	100	

Source: Economic Survey and Author' Estimations

Because of the integration of the Indian economy, the share of agricultural items in India's total exports has declined by 39 percent. India is the world's second-largest producer of coal and the fourth-largest producer of iron ore, but the share of ores and minerals in exports will be just 0.16 percent in 2021–22. Since economic reforms, the largest export earnings have come from the exports of gems and jewellery. The share of crude and petroleum products in exports in 1990–91 was just 2.9 percent, but in the last 32 years, its share has grown by 562 percent, and in 2021–22, its share in total exports is 19.2 percent. This shows the significant change in the composition of India's export basket since the integration of the Indian economy.

Table: 2 Composition of India's Import (1990-91 to 2021-22)

Import Basket	Percentage Share to Total Import			Growth Rate (1990-91to 2021-22)
	1990-91	2005-06	2021-22	
Crude & Petroleum Product	24.6	30.9	21.2	-14%
Capital Good	24.1	22.3	21.25	-12%
Pearls and Precious Stones	8.7	6.4	4.8	-45%
Iron & Steel	5	3.1	2.4	-52%
Fertilizers	4.1	1.5	2.3	-44%
Edible Oils	0.8	1.4	3	275%
Other	32.4	34.4	45.05	39%
	100	100	100	

Source: Economic Survey and Author' Estimations

After 1991, the Indian market became an open economy, and all big economic players got access to the Indian market. Because of the liberalization policy, the import tariff was brought down from 300 percent to 150 percent, and because of the tariff reduction, the total import bill of India increased to 911.3 billion USD in 2022 from 19.509 billion USD in 1991.

Dominance Patterns

After economic reforms India's export and import basket have been significantly changed from traditional export and import items in 1991 Agricultural and Allied Products was the biggest contributor of India's export basket but in 2021-22 Crude & Petroleum Product became one of the largest export earning items.

Table 3: Index of Rank Dominance of Exported Commodities 1990-91 to 2021-22

Variable	Total Score	IRD	RIRD
Manufactured Goods	312	0.978	0.178
Crude & Petroleum Product	256	0.789	0.143
Agricultural and Allied Products	190	0.748	0.136
Ores and Minerals	135	0.507	0.092
Other Items	96	0.361	0.081

Source: Author's Estimation

Table 4: Index of Rank Dominance of Imported Commodities 1990-91 to 2021-22

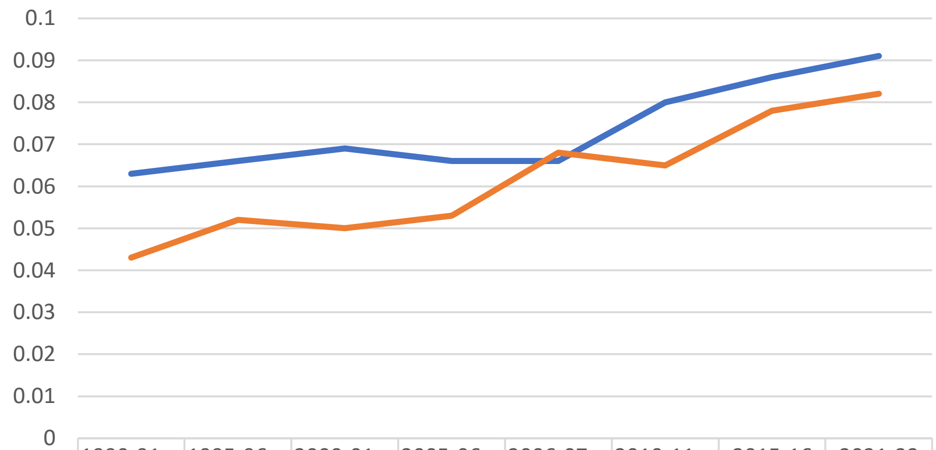
Variable	Total Score	IRD	RIRD
Other Items	264	0.978	0.178
Capital Good	213	0.789	0.143
Crude & Petroleum Product	202	0.748	0.136
Pearls and Precious Stones	196	0.673	0.117
Iron & Steel	140	0.507	0.092
Edible Oils	114	0.491	0.087
Fertilizers	98	0.301	0.076

Source: Author's Estimation

Tables 4 and 5 show that India's export and import basket have been completely changed in the last 32 years. In the last 32 years, India has transformed from an exporter of agricultural and allied products to an exporter of industrial and final goods such as refined petroleum products, iron and steel, and textile items. During 1991, the export of petroleum and crude products increased by 562 percent, while the export of agricultural and allied products, ores, and minerals declined by 39 percent and 96 percent, respectively. India's import basket has experienced very few variations since 1991. The main factors behind this transformation are the integration of the Indian economy with the rest of the world, EXIM and foreign trade policies, free trade agreements, and the SEZ Act of 2006. PLI schemes and make-in-India incentives.

Herfindal's Index of Concentration

Figure 1: Herfindal's Index of Concentration India's Export and Import



	1990-91	1995-96	2000-01	2005-06	2006-07	2010-11	2015-16	2021-22
HI of Export	0.063	0.066	0.069	0.066	0.066	0.08	0.086	0.091
HI of Import	0.043	0.052	0.05	0.053	0.068	0.065	0.078	0.082

Source: Author's Estimation

Herfindal's index of concentration shows the level of competition. The maximum value of HI of export is 0.091 in 2021-22 while minimum is 0.063 in 1990-91. The average value of the concentration ratio is 0.073 between 1990–91 and 2021–22. after 2006-07 the value of concentration ratio has been continuously increased. Due to economic integration and openness the HII of India's import continuously increased the increasing trends of concentration ratio of export and import shows the increasing trend competition.

Table 5: Growth Rate of Concentration of Composition of Commodities

	Coefficients	*S.E.*	t- Value	*P-value*
Intercept	-11.036	3.614	-3.103	0.009
HII	0.008	0.001	2.817	0.41

Source: Authar's Estimation

The above table shows that the compound growth rate of HI concentration in India's trade basket is positive and significant, but its value and growth rate are very low. It means the concentration of India's trade basket has increased since 1991, but this value also indicates that in the last 32 years, very few commodities have been added to India's export and import basket.

Policy Implementations and Suggestions

The major policy implementations and suggestion for export promotion and import reduction has been emerging out of this study are given below:

- **Export Divarication:** India's HI index of concentration is very low India should be focus on demand-based export.
- **Increasing Export Competitiveness:** The average HI of concentration of India is 0.073 which indicate low competition, so we can focus on enhancing and quality of goods.
- **Import Substitution and Cost Effective:** India spent approx. 119 billion USD, on import of crude oil in 2021-22 it is very huge amount, we should focus on import substitution and cost effectiveness and indigenous product.

Conclusion

This study found that after 1991, the composition of India's foreign trade had completely changed. Since the Exime policy -1992, India's foreign trade has experienced significant growth. The value of India's exports grew at a rate of 14.5 percent per year after 1992. In the last 30 years, the value of India's exports increased more than 27 times, from 18.53 billion USD in 1990–91 to 419 billion USD in 2021–22, while India's imports increased almost 19 times, from 24 billion USD to more than 470 billion USD in the same period. In the last 32 years, India's foreign trade has grown by more than 3000% and will reach 759.93 billion USD in 2023, up from 22.94 billion USD in 1991. Because of the integration of the Indian economy, the share of agriculture and allied products in India's total exports declined by 39 percent, while the share of petroleum and crude products increased by 562 percent from 1991 to 2022. India's import basket has experienced very few variations since 1991. The maximum value of HI of export is 0.091 in 2021-22 while minimum is 0.063 in 1990-91 The average value of the concentration ratio is 0.073 between 1990–91 and 2021–22. after 2006-07 the value of concentration ratio has been continuously increased. Due to economic integration and openness the HII of India's import continuously increased the increasing trends of concentration ratio of export and import shows the increasing trend competition. HI concentration in India's trade basket is positive and significant, but its value and growth rate are very low. It means the concentration of India's trade basket has increased since 1991, but this value also indicates that in the last 32 years, very few commodities have been added to India's export and import basket. If we want to achieve target of 1 trillion USD export by 2030 then we should add new good in our export basket and we should also focus on quantity as well as quality of goods.

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